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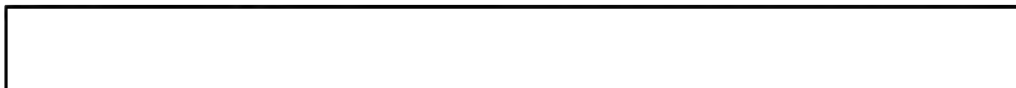
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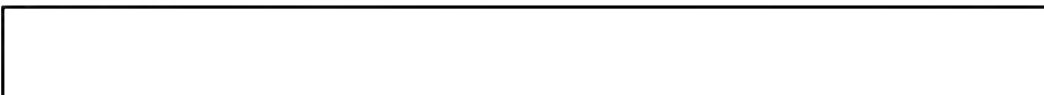
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LEBANON

Fighting continued yesterday in Beirut and picked up again in the northern port city of Tripoli. Ambassador Godley reports from Beirut that the current strife already has drastically weakened Lebanon's political system and that each day of fighting destroys a bit more of the country's economic prosperity and political strength.

Last night, the right-wing Phalanges Party as well as left-wing groups and Arab nationalists agreed again to abide by a cease-fire concluded Saturday night. The Phalangists may be willing to observe the cease-fire this time, because they are reportedly low on ammunition.

Syrian Foreign Minister Khaddam yesterday continued his efforts to mediate.

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The stated conditions of both the right and the left to observe the cease-fire have varied widely. The Phalangists were reported to be demanding a cease-fire with no political conditions. The leftists, including Progressive Socialist Party leader Kamal Jumblatt, were insisting that all parties agree to discuss a left-sponsored reform program that included amendment of the constitution and the national covenant. The Muslim community, including Prime Minister Karami, reportedly opposes the harsh position of the leftists, which is totally unacceptable to the Phalangists and the other Christians. A compromise was reportedly under consideration whereby all parties would agree only to discuss reforms. This would not imply a radical attack on the structure of the government.

The moderate fedayeen organizations continue to desire a formula that would end the fighting and reduce the pressure for their involvement. A Fatah official told an embassy source yesterday that Phalangist attacks on Palestinians had escalated over the previous few days. The Fatah official said that, if this continued, PLO leader Yasir Arafat would find it difficult to restrain the main Palestinian forces.

The US embassy in Beirut believes that nearly all the forces, except for the Communists and the fedayeen "rejectionists," would like to see an end to the fighting, but each on its own terms. The current cease-fire does not provide for the

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removal of barricades and armed men from the streets of the capital. Noting that without such a clause the entire arrangement is at the mercy of the least disciplined elements, the embassy doubts that the cease-fire as presently envisaged can be enforced effectively.

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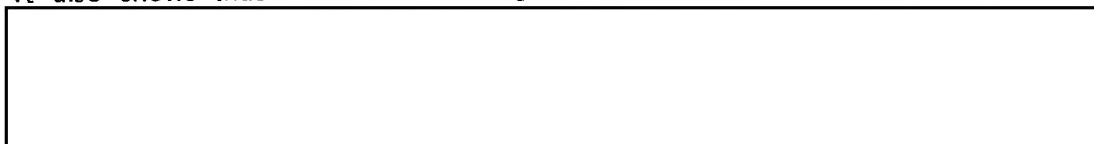
PANAMA-US

Panama's release this past weekend of the confidential US and Panamanian negotiating positions was prompted primarily by domestic political considerations and was not designed to torpedo the treaty talks.

The Foreign Ministry's outline of the points of agreement and disagreement sought to demonstrate that the government was maintaining the initiative in the negotiations and continuing to reject US proposals which might infringe on Panama's future sovereignty. It also complied with Chief of Government Torrijos' pledge to conduct open negotiations.

Despite the considerable optimism prevailing prior to the latest negotiating round, the session ended last week with Panama noting that "very little progress" was achieved. Furthermore, recent statements by US officials have been interpreted in Panama as indicating a hardened US position. In light of this, the government felt its communique would deflect any possible criticism.

The ministry's release significantly ended by noting that the US positions "are all negotiable," according to US Ambassador Bunker. Panamanian media focused, generally positively, on the government's approach to the negotiations rather than on alternate courses of action. Thus, although the government's basic commitment to the talks is not in doubt, its public contrast of major differences—for example, the US proposal to retain 85 percent of Zone territory, versus Panama's offer of 10 percent—will make it increasingly difficult for the Panamanian side to compromise. It also shows that Panama is banking on significant concessions from the US.



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PORTUGAL

The new government can expect no honeymoon period, especially from the Communists, who are already demonstrating that they will not easily give up the gains they have made.

The Communist Party is challenging the new government so that there will be no backsliding on the agrarian reform and industrial nationalization programs; the party is also attempting to block efforts to change local governments where Communists are in control. They will obviously work hard to hang on in the media, labor, and the government bureaucracy.

The Communists get strong support from peasant farm workers in the south, where agrarian reform efforts were concentrated under former prime minister Goncalves. In a speech on Sunday at a cooperative farm south of Lisbon, Communist leader Cunhal warned that "reactionary" forces in the new government—i.e., the Popular Democrats—will seek to undermine the process of land reform.

Cunhal assured the crowd that the Communists will use their role in the government to protect revolutionary gains. The party has pushed hard for and appears likely to receive a subcabinet position in the Ministry of Agriculture. The post would give it a voice in government decisions on agricultural matters. A rally is scheduled for Saturday to demonstrate Communist solidarity with southern farm workers.

In Porto, the civil governor's effort to dismiss the municipal council was rejected by leftist and Communist demonstrators, who clashed with police last Friday. Nevertheless, the governor has not backed down. He has expressed confidence that the new government in Lisbon will reconstitute local governing bodies so as to reflect the will of the people.

The Communist-dominated Portuguese Democratic Movement, meanwhile, is trying to foment unrest among industrial workers. The group intends to discourage any attempt by the new government to back down on the nationalization of industry by the Goncalves regime. Some 60 percent of Portuguese industry is affected by the nationalization.

The Democratic Movement has announced its opposition to the Azevedo government and has promised a "period of social agitation." The movement is supporting a one-hour strike called by the Communist-dominated steelworkers for

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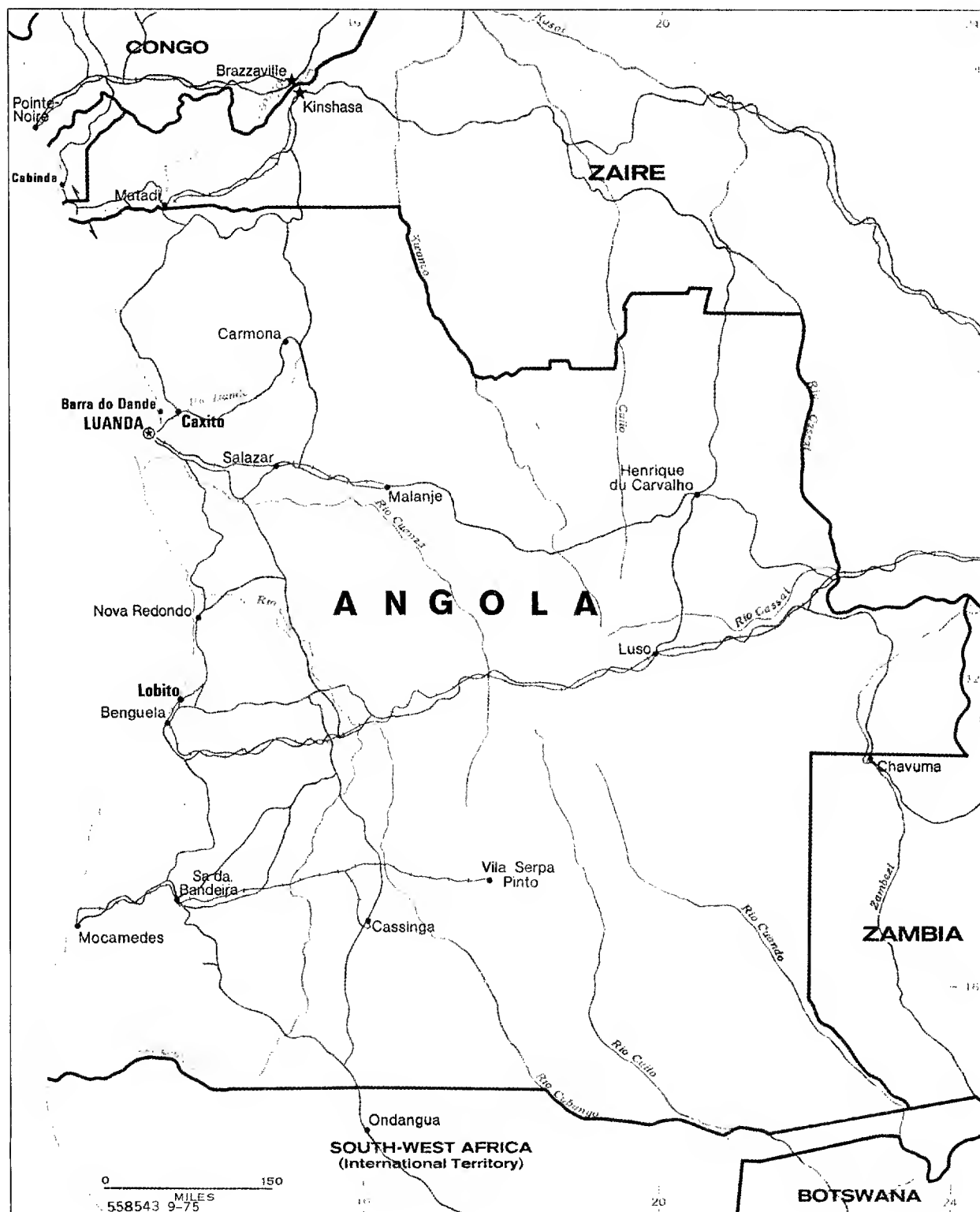
Wednesday. The Communist Party is probably also behind demonstrations by extreme leftist groups. The party has been strongly criticized by the extreme left for joining the Socialist-dominated government.

The Communists could cooperate with those splinter groups whose actions fit in with the party's strategy of encouraging disruptions while maintaining a facade of support for the government. One such effort may be a demonstration to be held on Thursday by an extremist group in the military—"Soldiers United Shall Win"—to demand increased wages and other benefits for the military.

The new government could prove vulnerable to attack by radicals who accuse it of being "reactionary." Some military officers do not want to risk their "revolutionary" credentials by supporting the government. Security chief Carvalho, for instance, has announced that he intends to keep his distance from the new government and to "enter decidedly into the opposition" if the government shows any sign of a turn to the right.

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ANGOLA

The National Front for the Liberation of Angola retook Caxito and the nearby town of Barra do Dande last weekend, according to an official announcement by Portuguese military authorities in Luanda. The National Front suffered a major setback two weeks ago when it was driven from the towns by the Popular Movement for the Liberation of Angola.

The recapture of the towns, which again places the Front in a strong position some 40 miles northeast of Luanda, will help revive the Front's flagging military fortunes. Front leader Holden Roberto will use the victory to reinforce his claim that the Front is a military and political force to be taken seriously and that it must have a meaningful role in a coalition government when Angola receives independence on November 11.

It is clear, however, that to gain credibility the Front will have to put considerably more pressure on the Popular Movement than it has in the past few weeks. The Popular Movement still dominates the capital, Luanda, the most important southern coastal centers—including Angola's main port of Lobito—and the Cabinda exclave.

The Movement-controlled press in Luanda will play down the significance of the Front's military gains. The Movement has been trying to present itself as the only liberation group capable of assuming control of an independent government.



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USSR-JAPAN

The Soviets have increased their protests against a Sino-Japanese peace treaty, in the wake of announcements that Japan's Foreign Minister Miyazawa will meet with Chinese Foreign Minister Chiao Kuan-hua at the UN this week. The two men are expected to discuss the resumption of negotiations on the treaty, which have been stalled since June.

Earlier this month there were several press items registering Moscow's opposition to a Sino-Japanese treaty that contained an anti-hegemony clause. A *Pravda* article on September 10 warned the Japanese that there would be "severe consequences" for Soviet-Japanese relations if Japan signed such a treaty. On September 17, the Soviet ambassador in Tokyo called on Miyazawa and suggested that realization of a visit by Foreign Minister Gromyko to Japan, tentatively scheduled for the end of this year, depended on how Tokyo handled the anti-hegemony clause.

Gromyko's visit was in doubt even before it became known that Sino-Japanese negotiations on the treaty were about to resume. By implying that the visit is linked to the treaty issue, the Soviets probably hope to give some substance to their threat of "severe consequences" ensuing from Japan's agreement to the anti-hegemony clause.

Moscow probably has not dismissed the possibility that its objections could, as they did last spring, help stall the Sino-Japanese negotiations, but the Soviets have long since become resigned to an eventual treaty containing the offending clause. The Soviets also seem to be trying to impress on the Japanese that if they accept this clause they will ultimately have to make some compensatory gesture toward the USSR.

What Moscow would like most would be for Japan to agree to negotiate the treaty of friendship and cooperation that Gromyko first proposed when Miyazawa was in Moscow last January. Such a treaty would skirt the seemingly irreconcilable Soviet-Japanese differences over the Northern Territories and would, in the Soviet view, politically nullify the anti-Soviet aspects of the pending Sino-Japanese accord. Tokyo has consistently rejected any treaty with Moscow without a resolution of the territorial problem, however, and is unlikely to accept any Soviet suggestion that Japan's agreement to the hegemony clauses requires some compensatory gesture toward the USSR.

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EC

The EC Nine are apparently preparing to present their complaints in the next few days about alleged US trade protectionism to international forums.

In recent weeks EC officials have made increasingly strong complaints over investigations launched by the US to determine whether foreign motor vehicles are being dumped on the US market—sold at prices below their fair market value—and over US allegations that some EC exports are being subsidized. The EC Commission yesterday called publicly for the US to curb “the forces of protectionism” following the US announcement of a decision to consider charges—made by a US steel firm—that EC steel exports are subsidized.

A West German official told the US mission to the Organization for Economic Cooperation and Development that Bonn will raise the motor vehicle dumping issue with the organization’s trade committee when it meets today and tomorrow in Paris. The trade committee is charged with monitoring the OECD pledge, signed by the US and most other members, to refrain from imposing new restrictive measures on trade.

In addition, the EC will reportedly ask the Council of the General Agreement on Tariffs and Trade in Geneva at its meeting on September 25 to look into the US motor vehicle investigation, and may ask that a special session of the GATT anti-dumping committee be called. The Nine have maintained that the US investigation of alleged motor vehicle dumping violates GATT rules, because the original complaint was filed not by US manufacturers but by a labor union and a US Congressman.

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FRANCE

Defense spending for 1976 will increase, but there will be cutbacks in some equipment projects because of larger pay and other personnel benefits, according to statements by Defense Minister Bourges and armaments boss Delpech. The 1976 defense budget will total approximately \$11.1 billion, an increase of 14.2 percent over last year.

Two projects, the Super Etendard and the Atlantique II aircraft will be extended. The Super Etendard is a carrier-based attack plane capable of delivering nuclear weapons, and the Atlantique II is an advanced version of France's current maritime patrol aircraft. Delays in the development of the next-generation Mirage aircraft, the so-called combat aircraft of the future, were reported earlier. There have been other indications that the attack submarine and helicopter carrier programs—both nuclear propelled—would also be delayed, but Delpech said the keel for the first attack submarine would be laid next year.

The joint French-Belgian-Dutch minesweeper, on which construction will begin next year, seems to have survived the cuts. In addition, procurement of Alpha-jet and Jaguar aircraft will continue. The number of Jaguars ordered, however, has been cut back. There was no mention of an army reorganization, which is rumored to include cuts in French forces in West Germany.

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INTERNATIONAL SHIPPING

Congestion in ports of less developed countries has increased dramatically and could cost shipowners more than \$5 billion in 1975.

The congestion is concentrated in West African and Middle East dry cargo ports, where ships now must wait an average of two months before unloading; available figures indicate that the average was just over two days at these ports as recently as four years ago.

The worst example is Lagos, Nigeria, where 354 ships are awaiting berths; 193 other vessels loaded with cement have waited for as long as a year to a year and a half to discharge their cargo. These delays are caused both by a massive increase in imports since oil prices were increased last year and by a lack of port facilities and cargo-handling equipment.

In addition to Lagos, the situation is most critical in Luanda (35 days) and Lobito, Angola (130 days); in Alexandria, Egypt (50 days); and in ports in Iraq, Syria, and Iran, where there have been delays of up to 140 days.

Soviet arms shipments to Angola, Iraq, Libya, Tanzania, and Syria are not affected by the congestion because they apparently receive priority berthing upon arrival at most ports.



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MEXICO: Treasury Secretary Jose Lopez Portillo has been selected as the ruling party's candidate to succeed President Echeverria for a six-year term beginning in 1976. Nomination by the ruling Institutional Revolutionary Party is tantamount to election. Lopez Portillo had been in the early running for the nomination but appeared to drop from consideration several months ago, with speculation then centering on Secretary of Government Moya and Secretary of the Presidency Cervantes. Lopez Portillo's selection by President Echeverria appears to represent a compromise. Long an associate of Echeverria, Lopez Portillo can be expected to continue the present administration's emphasis on the social aspects of economic development and to be friendly toward the US.

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